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PRICE MAINTENANCE OF MANUFACTURED DAIRY PRODUCTS
BY GOVERNMENTAL PURCHASES

An address delivered by Dr. E. W. Gaumnitz, Chief, Dairy Section, A.A.A., before the 21st annual meeting of the National Cooperative Milk Producers' Federation, Baltimore, Md., November 1, 1937.

Before getting into a discussion of the purchase program of the Federal Government relative to dairy products and the efficacy of such programs in maintaining the price of manufactured dairy products, the meaning of price maintenance as it will be used in the discussion should be set forth. While it is true that any purchase activity is in a manner of speaking price maintenance on a short run basis, inasmuch as prices tend to be increased and held above the level they would reach otherwise, such activity can hardly be construed as price maintenance in the ordinary sense. The type of price maintenance which I wish to discuss is that whereby prices are maintained at a level deemed desirable, a level that over any appreciable period of time such as several months or a year must be determined in advance. Such determination as to level having been made, the purchase mechanism would have to be adapted to the maintenance of the predetermined level, which might involve resale of product in addition to purchase.

A recapitulation of the purchase programs undertaken to date and the methods used in making purchases, together with an appraisal of the effect of purchases upon prices and incomes, will give the background necessary for a discussion of price maintenance.

You will recall that purchases of important manufactured dairy products, namely, butter, cheese, evaporated milk and dry skim milk, have been made by the Federal Government from time to time since August 1933. Recently a program for the purchase of surplus fluid milk was undertaken in the Boston market. The primary objective in each case has been the removal of burdensome supplies from commercial channels as a means of avoiding ruinous prices to producers, a procedure which, as was just noted, is hardly price stabilization except insofar as it tends to set a minimum price level at least during the purchase period. More indirectly, the dairy commodity diversion programs of the Government provide one means whereby large numbers of consumers lacking purchasing power receive essential food products, a policy first inaugurated in 1932 by the Federal Farm Board in its donation of wheat and cotton to the Red Cross for relief distribution. Procurement and distribution of dry skim milk likewise have tended to encourage usage, in homes, of a product heretofore unavailable for family consumption except in isolated cases.

You will readily appreciate that the degree to which these procurement operations have been effective in maintaining or increasing prices and therefore incomes to producers cannot be set forth in any precise quantitative manner. The complexity of the factors involved largely precludes such assessment, nevertheless, experiences covering operations over a four-year period are of value in appraising the effect of the programs.

The quantity of product removed from commercial channels is by no means the only factor to be considered in determining the effect of the purchase program upon the prices of dairy products. Timeliness in operations, the degree of stability in the market at the time procurement activities are undertaken, type and location of vendors, and methods of purchase all are of importance in this connection. Moreover, the offsetting influences of increased supplies, domestic and foreign, as well as decreased consumption, cannot be disregarded.

The amount of supplies involved in any given purchase program is dependent mainly upon the surplus situation as indicated by accumulated stocks, current and prospective production, and the price situation relative to that of other agricultural commodities. In a more general sense this means that the volumes to be acquired vary with the degree of stability in the market at the time purchase activities are undertaken. Thus, in the face of unprecedented storage holdings, and a record level of production during the fall of 1933, it was found necessary to purchase some 43,000,000 pounds of butter to effectuate the objectives of the program. On the other extreme, satisfactory results were obtained during the spring of 1937, even though the volume acquired did not exceed 3,000,000 pounds.

During the period August 1933 to September 1937 the Agricultural Adjustment Administration has purchased 74,965,000 pounds of butter, 19,031,000 pounds of cheese, 72,474,000 pounds of evaporated milk, and 42,626,000 pounds of dry skim milk. Total expenditures, exclusive of administration during this period amounted to \$28,207,000, of which \$18,216,000 was expended for butter, \$3,210,000 for cheese, \$3,832,000 for evaporated milk, and \$2,949,000 for dry skim milk. This does not include purchases by the Emergency Relief Administration with their own funds.

Considering only the price-quantity aspects of the matter, it appears that on the basis of studies indicating that total expenditures of consumers for butter, and presumably for related dairy products, remain about constant, or increase somewhat when supplies are reduced, the income from dairy products probably has been increased by something more than the amount spent in the purchase programs. This has been accomplished without significant increases either in domestic production or the volume of imports. However, this statement ignores the influence of timeliness of the operations upon prices, and it is probable that this is an important factor. While the needs for relief distribution have influenced timing of purchases to some extent, it has generally been found most feasible to concentrate procurement operations to those months when production is seasonally highest. To some extent this has meant different months of purchase for the several dairy products. In this way a larger volume may be acquired with a given-sized fund than obtainable otherwise, and an attack is made upon the mountain of seasonal surpluses at the most opportune time. In certain instances, however, it may be found desirable to prevent demoralization of the market by making timely purchases of a substantial nature before heavy surpluses have accumulated, rather than to try to bring about improvement afterwards.

In addition, purchases may have more effect on prices at one time or another during the year than is indicated solely on the basis of price-quantity relationships. It has been our experience that the markets for manufactured dairy products, especially butter, are more uncertain at the beginning of the butter storage season than at any other period in the year. That is, the old year is finished and it is time to start operations for the new storage year, with all its uncertainties. During this period the market may be unduly bearish, even though indications are that conditions may be fairly satisfactory during the ensuing storage year. The element of uncertainty as to the course of events apparently leads to caution on the part of dealers in purchasing product for storage. The Government, by purchasing during this unstable period, may exert quite a marked effect on prices, even though the volume of purchases be relatively small. Such was the case at the beginning of this storage year, when it is highly probable that prices would have been 1 or 2 cents lower if purchases had not been made. However, such situations may be aggravated instead of improved unless careful consideration is given to all factors involved, since prices may be maintained at too high a level to allow proper storage movement.

In addition to the foregoing, the methods used in purchasing products may have some effect upon prices, some methods being more advantageous in certain respects than other methods.

Three methods of operation have been used in removing dairy products from commercial channels. Until direct negotiations with vendors became a permissible method under section 32 programs, procurement of cheese, dry skim milk and evaporated milk was restricted to a competitive bid basis. Organized commodity exchanges do not exist either for dry skim or evaporated goods. Some butter has likewise been acquired on bids, but the bulk has been obtained from organized exchanges. Although the removal of a given quantity of product may be expected to have the same general influence upon prices regardless of the methods used, there are grounds for favoring one method over another under certain conditions. These conditions may be summarized as follows:

The exchange methods of purchase probably afford a particularly significant advantage when the purpose of the program is price maintenance or price strengthening on a short run basis. Three factors are important: the flexibility of open market operations permits adjustments with a minimum of interference and a maximum of benefit; possibility of operating without public announcement precludes interference by the trade in offsetting the program; the watching-and-waiting procedure characterizing this type of activity produces a controlling effect upon the bearish elements, thereby tending to minimize price fluctuations. The net effect of these factors is one of time advantage not found either in the contract or direct method of purchasing.

By and large, the cumbrousness of the contract methods limits its applicability to periods of prolonged and heavy surpluses. Involving as it does the public declaration of intention to buy, however,

direct participation is afforded to any and all who care to submit bids. The inflexibility of this method has been largely obviated under direct purchase procedure permitted under section 32 programs. Thus, during the price war of April 1937 which occurred in the metropolitan market of New York, some 4 1/4 million pounds of evaporated milk were removed before the ramifications of the strike spread elsewhere.

On the whole, it has been our experience that the several methods complement each other fairly well, and probably all three should be used to some extent, depending upon the commodity and market circumstances.

There is a material difference between a program of price maintenance and a program such as the purchase program just described, which is pointed toward the removal of temporary surpluses which are exerting price-depressing influences. In a price maintenance program, the purpose would be that of maintaining a level of prices deemed desirable. This is quite a different proposition from that of purchasing when some combination of factors makes it advisable to bolster the market. A program pointed merely toward increasing prices can be effectuated by purchasing as prices tend to sag. A price maintenance program would involve stabilizing prices at a desired level, a program which sooner or later would probably involve the sale of product when prices increased to the point that they were above the level desired, in addition to purchasing product when prices sagged below the desired level. This is due to the fact that in a price maintenance program of this type, it is necessary to determine the level at which prices are to be maintained at the beginning of the storage year, due account being taken of the seasonal factor. This is a difficult determination, and errors in forecasting conditions, whether through failure to take account of certain factors, the impossibility of forecasting growing conditions, and the like, may lead to serious difficulty. If prices are placed at too high a level during the into-storage season, storage demand on the part of dealers may be seriously curtailed, with the result that relatively large volumes would have to be purchased. If, then, such purchased supplies were not held and were distributed to persons on relief, winter shortage might result in a pronounced increase in prices. Therefore, it would appear that, in order to maintain a level of prices deemed desirable, it would be necessary to reduce the unusual peaks in prices through sale of product as well as to raise the unusual low points in prices through purchase of product.

What of the advantages and disadvantages of a program of price maintenance, one wherein primary emphasis would be placed upon smoothing seasonal variations in prices?

Presumably the reasons such a program has been proposed are that it would result in a more stable marketing structure, and enhance returns to producers. While the opinion seems to be fairly prevalent in some quarters that such a program would increase returns to producers, the facts in the case are not at all clear. What

conditions would have to be fulfilled in order for returns to producers to be increased, assuming the general level at which prices are to be maintained is in line with annual supply and demand conditions.

It seems that one important problem in this connection is the seasonal nature of the demand for butter. If a given change in supplies is associated with a relatively smaller change in price in the winter, than in the summer, then returns to producers probably could be increased by withholding from the market part of the supplies ordinarily offered consumers in the summer and placing such supplies upon the market in winter. This may or may not be the case, but it is probable that the demand for fats is somewhat stronger in the winter than in the summer.

Another reason frequently advanced for evening out seasonal fluctuations in prices is that speculative profits would be removed and prices to producers increased. According to figures published by the Bureau of Agricultural Economics, the weighted average margin between the price of 92-score butter at New York City during the out-of-storage period and the into-storage season varied from a loss of 2.4 cents per pound to a gain of 12.5 cents per pound during the period 1921-1937. These figures do not take account of storing and handling costs. In three of the sixteen years, losses were shown ranging from 0.1 cent to 2.4 cents, which would be greater, of course, if storage and handling charges were included. In the 13 years showing a gain (exclusive of storage and handling costs), the amount of the gain has varied from 2.6 cents per pound to 12.5 cents per pound. In addition to costs of storage and handling, which must be considered in deriving the net gain or loss, other items that need to be considered are loss of quality, if any, interest on money invested in the butter, and the like. While it would appear that speculative gains are substantial in some years, it should be recognized that in some years substantial losses may be incurred. However, if it can be demonstrated that a program of price maintenance such as that under discussion actually increased returns to producers, it follows that the program would be advantageous and in line with present national agricultural policy relative to returns to producers.

In this discussion it has been assumed that the general level of dairy product prices would not be materially affected. If such a policy relative to the level of prices were followed, the program probably would not be to the disadvantage of the general public, but might be desirable from the public standpoint through any tendency exerted by the program to maintain stable marketing conditions.

The disadvantages of a program of price maintenance are rather readily discernible. As was noted previously, a determination as to the level of prices that should be maintained is quite difficult. First, there are the technical difficulties encountered in forecasting the demand and supply situation for a year. As you all know, weather conditions may change rapidly and markedly, exerting a material short-run effect on production. The 1934 and 1936 droughts are examples of such changes. Then too, in the last few years demand conditions have

changed to a rather marked extent over a period of a few months. Obviously, failure to accurately forecast the supply and demand situation during the period the program would be in operation, the storage year, would lead to serious difficulty.

Second, the program would need the active support of producers. It is readily conceivable that there would be differences of opinion as to the level at which prices should be maintained, or, if a trend were to be maintained due to trends in business activity and the like, the rate of change to be established. By and large, producers would probably be satisfied during the period when purchases were being made, but it would be difficult to convince them that prices should be lowered through sale of product.

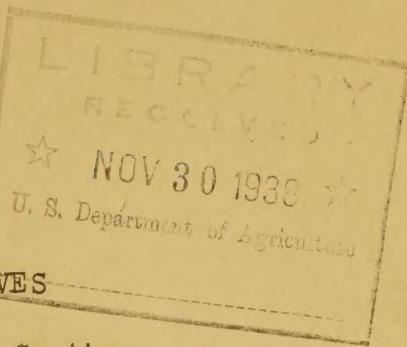
All of these problems need to be considered and careful appraisal of the advantages and disadvantages of such a program needs to be accomplished before the program should be put into operation. In difficult and far-reaching activity of this kind, it is best to proceed with caution, and then only after a meeting of minds relative to the feasibility and goal of the program.

The question may arise as to whether funds are available which could be used for the purpose of accomplishing a price maintenance program. Whether section 32 funds, those originating from custom receipts, can be legally used for this purpose is open to question. This difficulty arises from the fact that it is declared to be the purpose of section 32 to "(2) encourage the domestic consumption of such commodities or products by diverting them, by the payment of benefits or indemnities or by other means, from the normal channels of trade and commerce." Temporary diversion presumably is not sufficient. Under the Jones-Crossnally appropriations which are no longer available, this procedure was acceptable in that the Secretary of Agriculture was "to finance surplus reductions . . . and to support and balance the markets for the dairy and beef cattle industries." Funds made available to the Federal Surplus Commodities Corporation other than from section 32 probably could be utilized in a similar manner, however.

In view of these considerations, it would appear that a price maintenance program has possibilities, although it is questionable whether such a program could be initiated under existing legislative authority. Details as to method and the like, while difficult, probably could be worked out. However, it should be stressed that the success of such a program would be largely dependent upon widespread cooperation of all factors concerned.

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UNITED STATES DEPARTMENT OF AGRICULTURE
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DAIRY SECTION.



EFFECT OF FEDERAL MILK CONTROL ON COOPERATIVES

Address by Dr. E. W. Gaumnitz, Chief, Dairy Section,
before the annual convention of the National Coopera-
tive Milk Producers' Federation, Cincinnati, Ohio,
November 14, 1938.

When I first was asked to address the annual convention of the Federation regarding the place of fluid milk cooperatives in the fluid milk marketing program of the Federal Government under the Agricultural Marketing Agreement Act of 1937, I was inclined to look upon the assigned subject with some disfavor, due largely to the fact that I have discussed this subject many times before members of cooperative groups. However, the subject is undoubtedly an important one to all of us who have an interest in cooperatives and in the fluid milk program of the Federal Government. Furthermore, since I last talked on this subject, at the American Institute of Cooperation at Ames last summer, we have had some new experiences and attention has been focused more clearly upon some of the problems encountered in developing the proper relationships of a cooperative to the regulatory program. In connection with the discussion at Ames, I would like to point out that the first part of this discussion is largely a recapitulation of that discussion. The latter portions of the discussion deal with some of the problems regarding the relation of cooperatives to the regulatory programs which have developed, or with respect to which attention has been centered more forcibly, since that time.

By way of recapitulation, it is sufficient to summarize briefly certain common characteristics of the cooperative program and the program under the act.

First, the objectives of cooperatives and the policy of Congress as stated in the act are quite similar, although the objectives of the act are necessarily not as inclusive as those of cooperatives generally. One of the major objectives of milk cooperatives is to increase returns to producers through improving their bargaining position and to establish orderly marketing conditions for the product of their producer-members. As compared to this, the policy of Congress as stated in the act is to encourage such orderly marketing conditions for milk as will establish prices at the so-called "parity" level. Further, if the parity price is found to be unreasonable in view of local supply and demand conditions in the marketing area under consideration, such prices may be fixed as will reflect those conditions, insure a sufficient supply of pure and wholesome milk, and be in the public interest.

There are, of course, other purposes, for which cooperatives have been organized, arising from practices which existed at the time the cooperatives were formed. Perhaps the most important of these relates to security of market outlet. Under the old system, producers frequently found themselves cut off from the market during the flush production season and were then faced with the problem of shopping around for a buyer, often with little success. The cooperatives have overcome this difficulty to some extent by contracting to sell all of the milk of member producers. The problem of selling his milk was thus transferred from the producer, who in many cases was not well equipped to do so, to the cooperative with its facilities for effective bargaining. Another purpose for which cooperatives were organized was to secure accurate weighing and testing and security of payment for milk. Cooperatives have attempted to correct conditions in this respect by check weighing and testing and by guaranteeing payment for milk, or at least satisfying themselves as to the financial status of distributors.

Second, the marketing methods authorized by the act are similar to those first developed by cooperatives. For example, the classified price plan of selling milk to producers, included as one of the terms of the orders issued under the Agricultural Marketing Agreement Act of 1937, was originally developed and used by cooperatives. Cooperatives also developed the individual-handler pool and market-wide pool as methods of prorating to producers the proceeds of sales to handlers. Orders issued under the act provide for one of these types of pools. The base-rating plan was also developed by cooperatives and is used in some markets under Federal regulation. In view of these facts, it should be apparent that the regulatory program is an effort by the Federal Government to apply the methods developed by cooperatives to interstate markets that request a Federal program.

Third, not only do similarities exist between the fundamental objectives of cooperatives and the objectives under the act, as well as the methods used in achieving such objectives, but there are also limitations upon the extent to which such objectives can be achieved in each case. Under the Agricultural Marketing Agreement Act of 1937 parity prices are to be brought about "by gradual correction of the current level at as rapid a rate as the Secretary of Agriculture deems to be in the public interest and feasible in view of the current consumptive demand in domestic and foreign markets." In the case of cooperatives, on the other hand, the Capper-Volstead Act, which was passed by Congress some years ago, provides that cooperatives may not unduly enhance prices. While the limitation as to price-raising action by cooperatives is not as definitely stated as in the Agricultural Marketing Agreement Act, it is nevertheless interesting to note that a limitation actually exists in the Capper-Volstead Act.

Another type of limitation relates to the degree of control of the supply of milk in any market. Under the act

of 1937, the Federal Government is empowered to regulate only such handling of milk as is in interstate commerce, or directly burdens or affects interstate commerce. This provision is subject, of course, to judicial review, and it may be found that in many markets a large volume of milk would be exempt from Federal regulation. Similarly, in the case of cooperatives the control of the entire supply of milk in a market is rarely, if ever, achieved. There is always a fairly large group, often in the minority but nevertheless of significance, which does not sell its milk through the cooperative. This frequently hampers the program of the cooperative. Thus, the limitations to the achievement of the objectives of cooperatives and the policy of the Marketing Agreement Act are very much the same so far as the practical aspects of marketing are concerned, even though the origin of these limitations is different.

The regulatory program is related to cooperatives in yet another way. Not only are cooperatives recognized in the act, but they are given definite prerogatives. Before an order can become effective, two-thirds of the producers must approve that order. In voting on an order, the cooperatives vote on behalf of their members. Having been given these prerogatives they must, of course, assume corresponding responsibilities. Terms sought to be included in the orders must be feasible and sound. Prices must be in line with prevailing supply and demand conditions. In general, the attitude must be one of cooperation in the common end of securing more stable marketing conditions.

Since there are great similarities between the objectives, methods, and limitations of the Agricultural Marketing Agreement Act of 1937 and cooperatives, it might be expected that the functions of cooperatives would tend to diminish, or cooperative activity would tend to decline, under the Federal program. In considering this, it should be recognized that the Federal Government does not undertake to perform the functions of cooperatives but rather to supplement the work of the cooperatives in the performance of some of those functions. Some functions of cooperatives remain entirely unaffected by Federal regulation. The services rendered producer-members by the cooperative other than the negotiating of prices with distributors are not attempted by the Government. The cooperative still has the problem of selling the milk of its members under the fixed prices. It also has the problems of checking the weights and tests of members' milk and of guaranteeing the member a market outlet. While it may be true that the price-making functions of cooperatives are modified to some extent, the modification probably is more apparent than real, particularly in light of the limitations imposed by the act and the methods authorized in the act for the promulgation of orders.

I venture to say that cooperatives will receive more consideration from governmental regulatory bodies than from dealers, inasmuch as orders issued by the Government are based on the facts in the case, while prices negotiated by cooperatives are largely the result of cooperative bargaining strength relative to dealer

bargaining strength. Though there is an apparent diminution of the place of the cooperative in the price-making process, we who are charged with the administration of the program are convinced that the functions of the cooperatives are as a matter of fact enhanced under the program. Not only was the act drafted in such fashion that cooperatives are to be encouraged definitely under it, but our experience indicates that, unless there is a strongly functioning cooperative in the market, the cornerstone for a successful program is lacking.

The preceding remarks have been rather general in nature and, with these remarks as a background, it seems to me that the discussion can be focused more specifically upon certain points and certain problems that have arisen.

Congress, in framing the act, apparently recognized the facts and considerations discussed above and incorporated certain provisions relative to cooperatives. Briefly, these provisions are as follows:

(1). Section (5) (E) provides for the furnishing of certain marketing services to producers in a market under regulation, except to those producers being furnished such services by a qualified cooperative.

(2). Section (5) (F) provides that cooperatives qualified under the Capper-Volstead Act shall not be prevented from blending the proceeds of sales in all markets and distributing them to producer-members according to their contracts with members.

(3). Section 12 provides for cooperative association representation in the determination of producer approval of a proposed order. Under this provision, the Secretary of Agriculture shall ". . . consider the approval or disapproval by any cooperative association of producers, bona fide engaged in marketing the commodity or product thereof covered by such order, or in rendering services for or advancing the interests of the producers of such commodity, as the approval or disapproval of the producers who are members of, stockholders in, or under contract with, such cooperative association of producers."

(4). The act further provides for mediation or arbitration of disputes between dealers and producers by the Secretary of Agriculture or such employee of the Department of Agriculture as may be designated by him when requested to do so by any cooperative association, owned or controlled by producers or organizations thereof, and which is bona fide engaged in collective processing, or preparing for market or handling or marketing of milk or its products.

In administering the act in accordance with the provisions relative to cooperatives just noted, it is necessary to make certain determinations. These determinations are difficult, especially in the case of determinations relative to bargaining cooperatives which will be discussed in the remainder of this paper, and are of great

importance, both in connection with the intent of Congress, and the recognition that, as I just noted, strongly functioning cooperatives are the cornerstone of a successful program. They are necessary in order that the intent of Congress relative to cooperatives be carried out. Furthermore, it was undoubtedly the intent of Congress to encourage only bona fide producer-owned and producer-controlled cooperatives, and the determinations which I am going to discuss shortly are necessary in order that this type of cooperative, and only this type, be granted the prerogatives in, and the relationship to, the regulatory program that Congress, partly through your efforts, undoubtedly intended that it should have.

The fundamental question involved is that of determining what constitutes a cooperative association of producers under the meaning and intent of the act. I think all of us would agree that a cooperative, in order to meet the requirements and the intent of the act, must be producer-owned and producer-controlled. If the firm purporting to be a cooperative is not owned and controlled by producers, it would seem to be quite obvious that such a firm should not be granted the prerogatives of a cooperative under the act. However, having arrived at a general conclusion relative to the requirements a cooperative must meet in order to be qualified under the act, the problem arises as to when, in fact, a cooperative is producer-owned and producer-controlled.

The answer to this problem would appear to be dependent upon an inquiry into the facts of the matter. Partly, the answer involves the form, or shall we say, the powers granted or that may be exercised under the articles of incorporation and bylaws of the cooperative and its contract with members. If the documents just noted are broad enough in scope so that, at least on paper, the requirements relative to producer-ownership and producer-control are met, it then becomes necessary to inquire into the facts in the case in order to ascertain whether the cooperative actually operates in such fashion that it is in fact producer-owned and producer-controlled.

As far as the form of the organizational machinery is concerned, probably most of us would agree that a firm, in order to qualify as a cooperative, should meet at least the following requirements.

1. The cooperative should have authority to market the products of its members.
2. In case of a stock corporation, dividends should be limited to 8 percent, as required by the Capper-Volstead Act, or that part of the business of the company, where the wishes of the membership are necessary to its conduct, should permit the membership to vote, using the principle of one man - one vote.
3. Have as voting members only producers, and preferably those who are producing the commodity being marketed by the

association. In the case of a nonstock cooperative, only active producers should be members and have voting privileges, and in stock cooperatives, the voting stock should be limited to actual producers.

4. The rules for the election of officers of the cooperative should be such that control of the cooperative by a small minority would be practically impossible.

5. The means by which producers can become members should be open, and should provide for the assumption of definite obligations by both the producer and cooperative.

6. Nonmember business should not exceed member business in terms of value or quantity.

Presumably, it is possible to determine whether a cooperative meets the requirements listed above rather quickly by reference to its articles of incorporation, bylaws, membership contract, and records showing the volume handled for members as compared to that handled for nonmembers. However, the problem of determining whether the cooperative actually is producer-controlled may be quite difficult, since, although all requirements may be met on paper, so to speak, investigation of the manner in which the cooperative operates may show that the requirements are not met in actual operations.

If it could be assumed that because a cooperative is producer-owned it necessarily followed that it was producer-controlled, the problem would be simple. Unfortunately, this is not the case, and it becomes necessary to inquire into the facts of the matter. It is hardly to be questioned that the act contemplated only the encouragement and the granting of certain prerogatives to producer-controlled cooperatives, not those controlled by dealers. The question is, when is a cooperative producer-controlled? It may ostensibly be controlled by producers, in that its officers are elected by producers and presumably direct the affairs of the cooperative, but as a matter of fact may be controlled by dealers. What facts should be brought to bear in answering this question, even though the cooperative ostensibly is controlled by producers? In discussing this problem, I am merely going to raise some questions and discuss them generally. We do not have the complete answers to these questions, and therefore, I would like for this group merely to consider my remarks as being in the nature of laying the groundwork, in a manner of speaking, for further discussion.

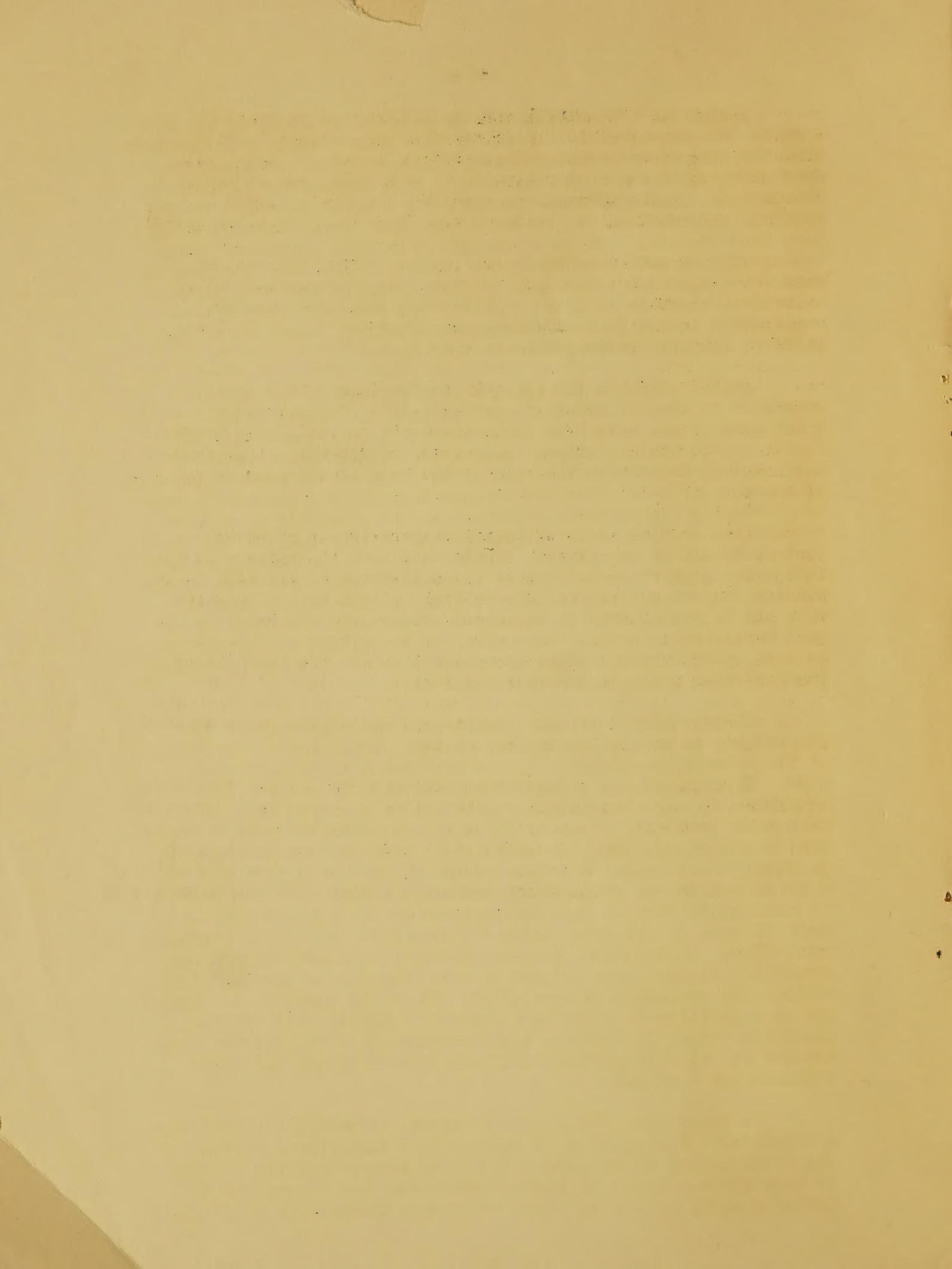
In the first place, assuming that the articles of incorporation and bylaws of the cooperative are such that, at least on paper, the cooperative is producer-owned and producer-controlled, does the cooperative actually have the power to operate as its organization papers indicate that it should?

A clue to this problem can be obtained by studying the history of the cooperative. It may be that such a study will disclose that the cooperative was developed from a group of producers who were disappointed with the operations of a cooperative already in the market. Such producers may have had a valid objection to the existing cooperative, but on the other hand, their objections may have been fostered, and their organization into a separate group encouraged, by some handler in the market. While the existence of such facts does not prove that dealers actually dominate the cooperative, there is at least room for the suspicion that the cooperative is not in fact producer-controlled, hence the matter warrants further investigation in such cases.

Another clue to the problem may be found in the manner specified or used in bringing members into the organization. I think most of you here will agree that it is an exceedingly difficult job to build a strong cooperative unless the cooperative has complete power over the sale of the milk of the member. Securing such power, however, involves the development of a membership contract whereby the producer confers upon the cooperative, and the cooperative accepts, full responsibility for the sale of the product on behalf of the member. While most of the cooperatives have made great strides in developing sound membership contracts, every now and then we are requested to qualify a firm as a cooperative when all it has to show in the way of a membership contract is a card amounting to nothing more than a vague pledge and conferring no more actual rights to the cooperative to act for the so-called "member" than a greeting card would confer.

Closely allied to this question of the authority of the cooperative to act for the member is that pertaining to the power of the cooperative relative to the delivery and allocation of milk. Even though the cooperative sells milk to several distributors, it may have no power relative to the allocation of milk among handlers. We have had some experience with cases where some handlers, usually high utilization handlers, needed more milk to supply their trade, but were unable to get the cooperative to shift milk from low utilization handlers to them. In such cases, it seems quite obvious that the cooperative does not actually control the sale of its milk, hence can hardly be said to be producer-controlled. Furthermore, in some disputes that have come to our attention, dealers have refused to take the milk of certain plants, cutting the producers at such plants off of the market. If dealers are in a position to bring such powerful pressure upon the cooperative, there is room for serious doubt as to whether the cooperative is actually producer-controlled, even though all other requirements were met.

In connection with dealer pressure, it should be noted that a cooperative that handles or represents a significant portion of the total volume of the milk sold in the market probably is open to less serious threat of dealer domination than a cooperative having a small portion of the total market volume. In those cases



where a cooperative handles a volume of milk that is small relative to the market total, it may find it exceedingly difficult to keep from becoming dominated by dealers. After all, the first job of any cooperative is to sell milk, and in the case of the relatively small cooperative, it may be forced to play ball by the dealers' rules or else be cut off from the market.

Other questions closely related to that of determining whether a cooperative is producer-owned and producer-controlled arise in connection with the problem of determining whether a cooperative actually is advancing the interests of its members. If it is actually under the domination of dealers to a greater or lesser degree, it follows that such cooperatives are advancing the interests of their members only to the extent that is consistent with the policy of the distributors. Furthermore, in such cases, even though the cooperative may be said to be advancing the interests of its members, it may be operating in a fashion inimical to the best interests of other organized producers and of the market.

Another clue as to whether a cooperative is producer-controlled may be gained from consideration of its sales outlets. It may be found that the cooperative sells most of its milk to one handler, in which case the cooperative, even though it bargains with and secures fairly satisfactory prices from the handler, may as a matter fact have little control of its product. This is especially true if the cooperative had limited or no facilities for diverting its milk to other handlers or handling it itself. In such cases, the cooperative can exert little pressure upon the handler in case of a dispute, and it is questionable as to whether it actually is controlled by producers.

I would like to suggest that cooperatives and their leaders and friends devote some study to the problems I have been discussing. It may be that some of the problems can be clarified only by legislation bearing on them. However, it is only through facing such problems and bringing all of our powers to bear upon them collectively that we can arrive at solutions that will foster cooperative marketing.

